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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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Europe Follows The U.S.

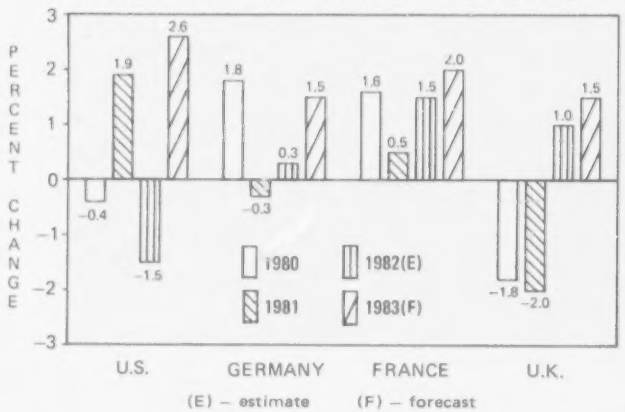
The economies of the major countries of Western Europe continue to march in lockstep, following the laggard pace of the United States. The same litany of economic woes which is delaying recovery here—lofty interest rates, tight credit and growing unemployment—is being repeated in many European countries. Just as in the United States, forecasts of economic recovery are constantly revised downward. Not only does the onset of recovery seem farther and farther away, but estimates of its size and strength have been reduced as well. Overall growth in Europe this year will be below one per cent and it is now expected to be only about 1.5 per cent next year, down from the still paltry 2.5 per cent which was widely projected for 1983 as recently as midyear.

In West Germany, forecasts, which just a few months ago anticipated one per cent growth in real GDP for 1982 and over three per cent in 1983, now project less than one-half of one per cent growth this year and one to two per cent next year (see chart opposite). Although inflation has eased from about six per cent in 1981 to a current annualized rate of five per cent, unemployment has skyrocketed. In August, 7.8 per cent of the German work force was out of work—the highest level in 30 years. What is more, unemployment is still growing and may well exceed eight per cent by yearend. The business climate, particularly for manufacturing, is also deteriorating, as business failures mount and export orders continue to decline. Business insolvencies for the first half of this year were about 40 per cent higher than in the same period one year earlier (Financial Digest—July 12, 1982). Exports, which have averaged almost 29 per cent of GNP over the past five years, were down 11 per cent in volume terms in July compared with the same month a year ago, and were six per cent below the previous month. As inventories have risen and factory orders have fallen, industrial production has declined, reflecting the weakness of both domestic and export demand.

Weakness Is Widespread . . .

The German economy is the largest and most powerful in Europe. With evidence of weakness widespread throughout all sectors of the economy, the prospects for the rest of Europe are also bleak. In the near term, West Germany does not seem likely to be a driving force for European economic recovery. Further, uncertainty about the future direction of economic policy has been generated by

REAL GDP/GNP GROWTH IN SELECTED OECD COUNTRIES



the recent change in government and the prospect of new elections next March. Hence, for the next six months, the new government may be more concerned with political affairs, rather than the development of a long-term economic policy.

The economic problems in West Germany have an impact spreading far beyond its borders. France, for example, which sends about 16 per cent of its exports to the German Federal Republic and another 43 per cent to the rest of Western Europe, has also reconsidered its economic policies. The expansionary measures introduced by the Mitterrand government last year have resulted in a higher rate of real growth than most of its European neighbors so far this year, but at the cost of high inflation, currently running at an 11 per cent annual rate, and a skyrocketing trade deficit, almost $10 billion in the first eight months of this year.

The massive outflow of funds resulting from the trade deficit has awakened the specter of a further devaluation of the French franc and perhaps the necessity of leaving the European Monetary System.

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Consequently, France has introduced a series of deflationary measures (including wage and price controls) which have caused estimates of real GDP growth to be reduced from 2.5 per cent to 1.5 per cent this year and perhaps two per cent next year. In spite of these steps, however, the expected large deficit in this year's merchandise trade account may lead to a record current account shortfall in excess of $10 billion.

The United Kingdom is depending heavily on a general world economic recovery to stimulate its export-oriented economy. Exports from the U.K. are equal to about 30 per cent of GNP. After two years of negative growth in real GNP, this year the United Kingdom expects only about a one per cent rise and perhaps another 1.5 per cent next year. The hiatus in GNP growth in 1980 and 1981 and this year's weak economic performance are attributable not only to the poor state of the global economic environment, but, more important, to the rigorous fiscal and monetary regimen to which the country has been subjected by the present government. As in the United States, the anti-inflationary policy introduced by Mrs. Thatcher was characterized by a very restrictive monetary policy. The economy has responded as might be expected. Growth stopped but the inflation rate slowed as well, from an annual rate of 18 per cent in 1980 to a current annualized rate of eight per cent. Unemployment in Great

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 9/29/82	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	140.750	– .448	+ 8.733
Loans to Depository Inst.	.749	– .060	– .694
Float	1.774	– .496	– .984
Total Reserve Bank Credit	152.765	– 1.045	+ 7.701
Treasury Deposits with Federal Reserve Banks	4.489	+ .878	+ 1.068
Currency Outside Banks	130.583	– 2.140	+ 8.831
Member Bank Reserves:			
Required	40.279	+ .277	– .732
Excess (Deficiency)	.291	+ .049	– .282
Total Reserves Held	40.570	+ .326	– 1.014
Net Borrowed Reserves	.346	– .121	– .291
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	97.939	+ 1.453	+ 6.477
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1	460.4	+ 8.7‡	+ 6.8‡
M2 (August '82)	1,946.2	+ 10.3	+ 9.8
M3 (August '82)	2,355.7	+ 13.4	+ 10.8
L (June '82)	2,797.8	+ 12.0	+ 11.6

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

	3 Months	6 Months	1 Year
Offering Rates 10/8/82			
‡U.S. Treasury Bills	7.35%	8.10%	8.30%
* Federal Agencies	7.65	9.07	9.75
* Project Notes–Taxfree (46% Taxable Equivalent)	8.33	8.80	10.09
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	9.75	9.60	10.63

‡Finance Company Paper–Prime		‡* Bankers' Acceptances	
5-14 days	9.00%	Nov.	9.75%
15-29 days	9.50	Dec.	9.75
30-59 days	9.50	Jan.	9.80
60-89 days	9.50	Feb.	9.80
90-179 days	9.63	Mar.	9.60
180-239 days	9.63	Apr.	9.45
240-270 days	9.63		

‡Industrial Paper–Prime			
30-89 days	9.63%	†Federal Funds Effective Rate	9.65%
90-120 days	9.75		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period at Time of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'82	$ 3,045	$ 2,996	$ 2,902
Gross National Product (1972 Dollars)*	2nd Q'82	$ 1,478	$ 1,471	$ 1,502
Percent Change, Annual Rate	2nd Q'82	2.1	– 5.1	– 1.5
Change in Consumer Prices (all urban consumers)*	Aug '82	3.6%	7.2%	9.6%
Change in Producer Prices*	Aug '82	7.2%	7.2%	3.6%
Civilian Employment (Thousands of Persons)†	Sep '82n	99,720	99,839	100,258
Unemployment as % of Civilian Labor Force†	Sep '82n	10.1%	9.8%	7.6%
Personal Income*	Aug '82	$ 2,601	$ 2,593	$ 2,460
Leading Indicators Composite Index (1967=100)†	Aug '82	128.6	129.8	134.1
Industrial Production Index (1967=100) †	Aug '82	138.0	138.7	153.6
Net Change in Consumer Installment Credit†	Aug '82n	$ 0.07	$ 0.57	$ 2.43
U.S. Merchandise Trade Balance †	Aug '82	–$ 7.08	–$ 2.42	–$ 5.37
Plant and Equipment Expenditures*	4th Q'82	$324.47(a)	$328.04(a)	$327.83
Private Housing Starts (Thousands of Units)*	Aug '82	1,002	1,195	946
New Construction Expenditures*	Aug '82	$ 232.3	$ 228.7	$ 235.9
Total Business Inventories†	Jul '82	$ 513.4	$ 512.8	$ 504.7
Total Business Sales†	Jul '82	$ 345.4	$ 345.6	$ 355.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Britain, which is the highest since the 1930s, is approximately 12.5 per cent of the work force and still rising. However, wage settlements have been moderate, which has contributed to the slowing inflation rate. The prospects for the United Kingdom next year are not bright, given the delayed recovery in the global economic environment, poor prospects for world trade and the near certainty that any recovery will be sluggish.

. . . As Real Interest Rates Stay High

The pattern of recessionary or low growth rates, rising unemployment and mounting business failures which plagues the major European countries owes much to their response to high U.S. real interest rates which in turn result from the Fed's restrictive monetary policies. With the exception of the United Kingdom, whose anti-inflationary policies predate those of the U.S., most European countries implemented defensive monetary and exchange rate policies in response to huge capital outflows to the U.S. seeking interest rate advantage and the consequent deterioration of their currency's exchange rate against the dollar. The effect of these defensive measures, while retarding inflation, also suppressed demand and raised lending rates to near prohibitive levels just as in the United States. In spite of the recent declines in U.S. interest rates, this country still enjoys a real interest rate advantage over most European countries. Consequently, interest rates

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Prior Week	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/22/82)	148,887	+ 2,132	+20,462
New York City (9/22/82)	38,798	– 297	+ 7,628
Commercial Paper (9/22/82)	174,121	+ 1,673	+10,291

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Prior Week	Change Since Year Ago
Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks			
Nationwide (9/22/82)	216,990	+ 915	+31,538
New York City (9/22/82)	61,576	+ 195	+ 7,696
Total Loans Gross Adjusted			
Nationwide (9/22/82)	497,676	– 38	+46,804
New York City (9/22/82)	118,415	– 914	+11,542

Financial Markets

	Friday 10/8/82	Change Since Prior Week	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.61%	+ .11	– 6.09
180-Day Bills†	8.70	– .37	– 5.92
Longest Bills†	10.20	+ .10	– 4.65
Recent Issues:			
12 1/8s 9/30/84	9.74	– 1.51	
12 1/4s 9/30/86	10.42	– 1.13	
13 3/4s 5/15/92	11.19	– .76	
14s 11/15/11	11.03	– .60	
Municipals:			
Bond Buyer–20 Bond Index* (10/7/82)	9.75%	– .73	– 2.98
Blue List Total ($ Million)	$ 858	– $319	+ $ 54
30-Day Visible Supply ($ Million)	$2,546	– $275	+ $648
Total	$3,404	– $594	+ $702
Corporates:			
Moody's Aa Composite (10/7/82)	13.17%	– .26	– 2.55
30-Day Visible Supply ($ Million) ‡	$ 810	– $302	NA
Stocks:			
Dow-Jones Averages:			
Industrials	986.85	+ 79.11	+ 113.85
Transportation	385.79	+ 20.76	+ 14.51
Utilities	120.25	+ 4.34	+ 16.09
65 Stocks	379.00	+ 25.24	+ 36.85
Standard and Poor's 500 Stocks	131.05	+ 9.08	+ 9.60
N.Y.S.E. Composite Index	75.00	+ 4.99	+ 4.68
N.Y.S.E. Avg. Daily Vol. for Week (000's)	97,888	+37,646	+ 49,026

* 46% Taxable equivalent 18.06%.
‡ Series redefined: Historical data not available.
† Bond equivalent.

International Rates

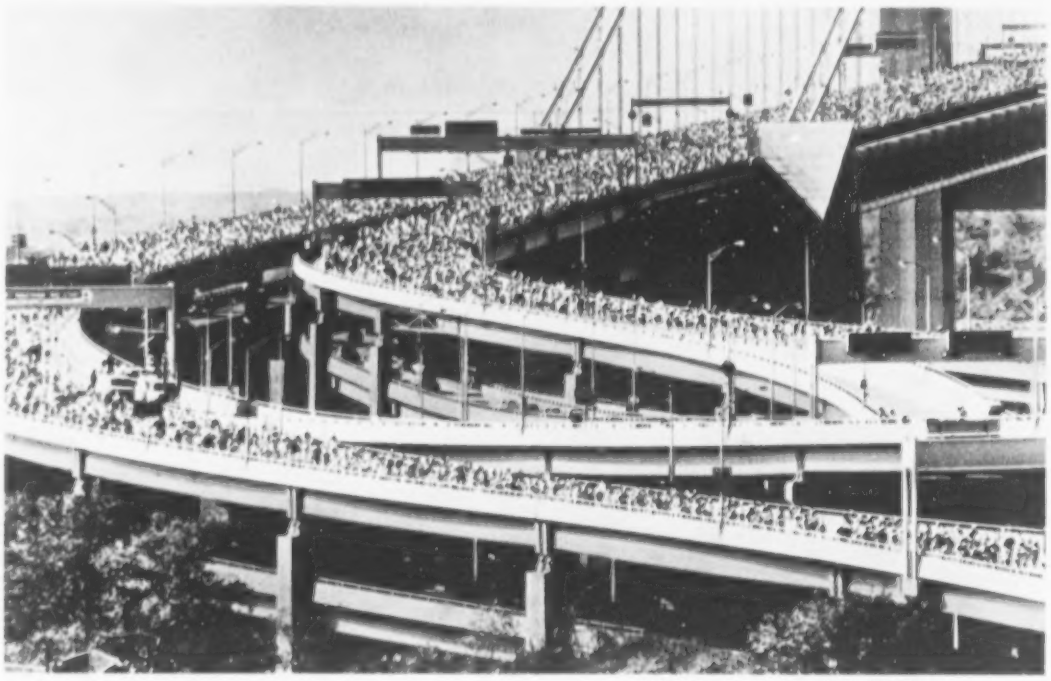
EURODOLLAR DEPOSIT RATES (bid)	Friday 10/8/82	Week Ago
Overnight	9.63%	11.88%
1 month	10.63	11.00
3 month	10.75	11.50
6 month	11.13	11.94
1 year	11.75	12.19
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	12.80%	13.10%
Long Term (7 to 15 yrs.)	13.00	13.25

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/8/82)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02045	48.89
Canada	.8107	1.2335
Denmark	.1120	8.9305
France	.1407	7.1075
Germany	.3971	2.5185
Italy	.0007021	1424.30
Japan	.003738	267.55
Mexico	.009174	109.00
Netherlands	.3642	2.7460
Switzerland	.4655	2.1483
U.K.	1.7073	.5857

in Europe may not come down as rapidly as they have in the U.S., further discouraging their economic recovery.

Until there is a more general confidence on the part of financial markets that inflationary pressures have been decisively reversed in the United States which will allow for further substantial cuts in our interest rates, it is unlikely that Europe will be able to follow suit, setting the stage for recovery.



The New York City Marathon, co-sponsored by Manufacturers Hanover

The marketplace demands sustained effort.

Manufacturers Hanover strives.

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

For example, our subsidiaries now have more offices nationwide than any other bank holding company, giving us instant access to both large and middle market companies. This enables us to provide other financial services besides banking—factoring, equipment financing, and mortgage lending.

But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

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